

**Comments for the Record for  
U.S. House of Representatives  
Committee on Ways and Means  
Subcommittee on Worker and Family Support  
Hearing on Leveling The Playing Field For Working Families:  
Challenges And Opportunities  
Thursday, March 7, 2019 - 2:00 pm  
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Chairman Davis and Ranking Member Walorski, thank you for the opportunity to address this issue. These remarks are mostly a repeat of our comments of May 2016. Sadly, we have actually gone backwards. As usual, we will preface our comments with our comprehensive four-part approach, which will provide context for our comments.

- A Value Added Tax (VAT) to fund domestic military spending and domestic discretionary spending with a rate between 10% and 13%, which makes sure very American pays something. This tax will be net of any Carbon Tax..
- Personal income surtaxes on joint and widowed filers with net annual incomes of \$100,000 and single filers earning \$50,000 per year to fund net interest payments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates between 5% and 25%.
- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), which is essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age 60.

The most important factor in leveling the playing field is an adequate wage for work. Ideally, this should come from a higher minimum wage, which puts the burden on employers and ultimately customers for fair pay, rather than a tax support for low wage workers (regardless of parental status).

The market cannot provide this wage, as there will always be more desperate employees who can be taken advantage of to force wages lower for everyone else. A minimum wage protects those employers who would do the right thing by their employees if not for their competitors.

A \$15 per hour minimum wage is currently being demanded by a significant share of the voters. Perhaps it is time to listen. If the marginal productive product of these

employees is more than this rate, job losses will not occur – of course, the estimates of this product can be easily manipulated by opponents who believe that managers provide much more productivity than people who actually work, so such estimates should be examined critically. Internally, people usually have the correct number, but are loathe to share it if doing so hurts their political point.

In some industries, of course, there are plenty of low wage workers who are not as productive as the wage is high (although this makes one wonder whether such industries are worth supporting in the economy). For these employees, paid education should be available – and by pay we mean tuition and wages.

Workers that are less than literate at a tenth grade level deserve full remedial education, with pay at minimum wage levels. This can be paid for in a variety of ways under our model. The usual model is for state governments to provide this education – and in our model the educational institution will also provide case management and stipends and would be funded by the NBRT/Subtraction VAT. There are other options as well.

Employers could provide remedial education and payroll as an offset of their NBRT obligations. They could also contribute to a third party provider, such as Catholic Charities and their related education systems, again offsetting their NBRT with the contribution (a full credit for both tuition and stipends).

Other workers need vocational training. This should be provided through employers. Training costs would be NBRT deductible, but not creditable, because ideally new workers should pay back the employer with a service requirement in much the same way that military academy students are required to serve some period in uniform, with a student loan program to fund those new workers for whom the employment situation does not work out.

Training stipends would not be repayable nor would they be creditable or deductible, as allowing tax advantages for such wages at this level would invite no end of mischief in deducting or crediting the value added of mostly productive employees who are also receiving training. In this case, preventing the gaming of the training stipend will keep the NBRT lower than it otherwise would be.

Some employees require college educations to advance. The first two years of college would be grouped with the last two years of high school and would be provided by the state (including parochial high school and college), by employers directly or through a third party provider or through contributions to a public or private school. Students would receive a stipend and both tuition and stipend would be fully creditable against the NBRT. Labor provided as a supplement to the employer would be fully taxed as other value added. After the second of school, employees would be paid for the remainder of college and graduate school along the same lines as vocational training.

Aside from higher base wages and training, the best way to keep families out of poverty is to give them enough money. None other than Milton Friedman suggested a negative

income tax and both Republican and Democratic presidents have enacted and expanded the Earned Income Tax Credit and the Child Tax Credit.

We propose that the Child Tax Credit be increased to at least \$500 per month, which is paid for by ending the child tax exemption (which is gone anyway with the income tax for most families) and the deductions for home mortgage interest and property taxes. Replacing welfare programs and the EITC should allow a \$1000 per month credit, which would be paid as an offset to the NBRT and paid with wages. Even if the NBRT rate must be raised to cover the cost of the excess credit.

The loss of the EITC would be ameliorated by a higher Child Tax Credit, the paid training opportunities and a floor on the Employee Contribution to Social Security. Social Security accumulation would be held harmless, or increased, by crediting the employer contribution equally (regardless of wage) and funding it with the NBRT.

These proposals will have a positive impact on the prevention of abortion. Indeed, they are the essence of the Seamless Garment of Life as discussed by Cardinal Bernardin. The Center urges the National Right to Life Committee to make adoption of these recommendations a scored life issue. Failure to do so proves the point of NARAL-Pro-Choice America that abortion restrictions would be all about controlling sexuality. Prove NARAL wrong and adopt these recommendations.

A key part of our agenda is to increase income tax revenue from the very wealthy through our income and inheritance surtax. The higher the marginal tax rate goes, the less likely shareholders and CEOs will go after worker wages in the guise of productivity while pocketing the gains for themselves. Since shareholders usually receive a normal profit through dividends, it is the CEO class that gets rich off of workers unless tax rates are high enough to dissuade them.

This is where we have gone backwards. The Tax and Job Cuts Act (not a typo) was a classic piece of Austrian Economics, where booms are encouraged, busts happen with no bail outs and the strong companies and best workers keep jobs and devil take the hindmost. It is economic Darwinism at its most obvious, but there is a safety valve. When tax cuts pass, Congress loses all fiscal discipline, the Budget Control Act baseline discipline is (as it should be) suspended and deficits grow. Taxpayers don't mind because bond purchasers are sure to pick up the slack, which they will as long as we run trade deficits, unless the President's economic naiveté ruins that for us.

Modern economics has become infected with the idea that higher tax rates and lower public spending hurt the economy. By definition, this is not case. The exact opposite is true. To refresh our memories of what is in the U.S. Code and most basic economics textbooks, Gross Domestic Product equals equal government purchases, consumption from government employee, contractor, transfer recipient and second order private sector spending, which leads to private sector investment, and exports net of imports (which creates a source of funds for debt finance).

Anything that is not part of GDP is considered “savings” or in reality, is asset inflation. If you want to end poverty, give poor people and retirees more money and the economy will grow. Increase government expenditure (even bombers) and the economy will grow, including for the now notorious upper middle class.

Lower tax rates also made money available to chase the same supply of investment instruments, which bid up their price, and caused the invention of a whole range of new products which would be built up and sold by the emerging financial class, who would profit-take and watch what they created go bust and start yet another modern recession, especially the Great Recession just experienced. Only higher tax rates or increased deficit spending control such asset inflation (and the consumption cycles associated with them – which Marx thought was the driver of the boom bust cycle – Marx had a failure of imagination).

Employee-ownership is the ultimate protection for worker wages. Our proposal for expanding it involves diverting an every-increasing portion of the employer-contribution to the Old Age and Survivors fund to a combination of employer voting stock and an insurance fund holding the stock of all similar companies. At some point, these companies will be run democratically, including CEO pay, and workers will be safe from predatory management practices. Increasing the number of employee-owned firms also decreases the incentive to lower tax rates and bid up asset markets with the proceeds.

Establishing personal retirement accounts holding index funds for Wall Street to play with will not help. Accounts holding voting and preferred stock in the employer and an insurance fund holding the stocks of all such firms will, in time, reduce inequality and provide local constituencies for infrastructure improvements and the funds to carry them out.

NBRT/SVAT collections, which tax both labor and profit, will be set high enough to fund employee-ownership and payment of current beneficiaries.. All employees would be credited with the same monthly contribution, regardless of wage. The employer contribution to Old Age and Survivors Insurance will continue to provide income sensitive payments to current retirees, which will bolster the political acceptance of the entire system.

ESOP loans and distribution of a portion of the Social Security Trust Fund could also speed the adoption of such accounts. Our Income and Inheritance Surtax (where cash from estates and the sale of estate assets are normal income) would fund reimbursements of the Trust Fund.

It is in our power to make low wage work and family poverty a thing of the past. Indeed, doing so is the primary reason the Center for Fiscal Equity was created. We are not proposing hand-outs but a hand up with adequate rewards for taking it.

Thank you again for the opportunity to add our comments to the debate. Please contact us if we can be of any assistance or contribute direct testimony.

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